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NOMINATIONS OF RICHARD SCHMALENSEE, EUGENE KISTLER LAWSON, AND CLAIRE E. FREEMAN

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

THE NOMINATIONS OF

RICHARD SCHMALENSEE, OF MASSACHUSETTS, TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS, VICE THOMAS GALE MOORE, RESIGNED

AND

EUGENE KISTLER LAWSON, OF THE DISTRICT OF COLUMBIA, TO BE FIRST VICE PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES, FOR A TERM OF 4 YEARS EXPIRING JANUARY 20, 1993, VICE WILLIAM F. RYAN, TERM EXPIRED

AND

CLAIRE E. FREEMAN, OF VIRGINIA, TO BE AN ASSISTANT SECRETARY OF HOUSING AND URBAN DEVELOPMENT, VICE JUDITH L. TARDY, RESIGNED

SEPTEMBER 21, 1989

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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NOMINATIONS OF RICHARD SCHMALENSEE, OF MASSACHUSETTS, TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS; EUGENE KISTLER LAWSON, OF THE DISTRICT OF COLUMBIA, TO BE FIRST VICE PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES; AND CLAIRE E. FREEMAN, OF VIRGINIA, TO BE AN ASSISTANT SECRETARY OF HOUSING AND URBAN DEVELOPMENT

THURSDAY, SEPTEMBER 21, 1989

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10:05 a.m. in room SD-538 of the Dirksen Senate Office Building, Senator Donald W. Riegle (chairman of the committee) presiding.

Present: Senators Riegle, Dixon, Shelby, Garn, and Pressler.

OPENING STATEMENT OF CHAIRMAN RIEGLE

The CHAIRMAN. The committee will come to order.

Let me welcome our nominees and those who are accompanying them, and all other attendees in the hearing room this morning. We have three nominees who will be appearing today. I want to first welcome Mr. Richard Schmalensee, from MIT, who is nominee for the Council of Economic Advisers. He would join Michael Boskin and John Taylor, to complete their council. His duties would be concentrated in micro rather than macroeconomic areas.

He has had a distinguished career specializing in industrial regulation and market structure issues. His views on antitrust issues and regulatory issues will be very important in shaping the administration's position on issues such as clean air, which he has been very much involved in and will touch on today; discrimination against people with disabilities; and regulation in the telecommunications and airline industries, among others.

I also will be very interested to hear what he has to say about the costs and benefits of this surge in leverage buyout activity that we have seen in our economy in the last few years.

I want to yield at this point to Senator Garn for any initial comments that he wants to make, before proceeding.

Senator Garn.

OPENING REMARKS OF SENATOR GARN

Senator GARN. Thanks very much, Mr. Chairman.

I want to thank you for holding these hearings and clearing up the backlog of nominations that have been before the committee. I think it is vital that we fill these important policy positions in the agencies, so they can get on with the work of the new administration.

Today we are examining three nominees for senior positions with the Council of Economic Advisers, the Department of Housing and Urban Development, and the Export-Import Bank. We recently confirmed John Macomber as President and Chairman of the Export-Import Bank, and I know that he will welcome the support of Eugene Kistler Lawson as First Vice President and Vice Chairman. So it is also important that we complete the Council of Economic Advisers and complete the complement of that council.

Finally, I am sure that Jack Kemp will welcome the arrival of Claire Freeman as Assistant Secretary, with all of the difficult problems he is facing at this time.

So I support all of the nominees, and urge their speedy approval.

The CHAIRMAN. Very good.

Mr. Schmalensee, when we begin the question period I am going to administer the oath, as we do to all nominees who come in. But before doing so, let me invite you to make any introductions of those who may be accompanying you, or any opening statement that you wish to.

Mr. SCHMALENSEE. Thank you, Mr. Chairman.

I would introduce Steve Landenfeld, the Council's primary administrative officer, who is with me; and my wife, Dianne, whose birthday it is, who is with me.

Senator GARN. Happy birthday.

The CHAIRMAN. Before we begin I have a statement of Senator Dixon.

STATEMENT OF SENATOR ALAN DIXON

Senator DIXON. Mr. Chairman, I am pleased to be here this morning as the Senate Banking Committee conducts hearings on the nominations of Claire E. Freeman to be an Assistant Secretary of Housing and Urban Development; Eugene Kistler Lawson to be First Vice President of the Export-Import Bank of the United States; and Richard Schmalensee to be a member of the Council of Economic Advisers.

I am sure that there is a common thread here among housing, exports, and economic policy. Probably, our chairman tailor-made this hearing for a profound exposition which weaves together these three vital subjects.

I won't try to dress up this nomination hearing with an eloquent discourse. I will, however, spin a short yarn about a man from Belleville, IL—not about myself, about one of our witnesses. Mr. Schmalensee grew up in Belleville, but he cut out of there for Massachusetts and never returned. I would like to pin him down on what he likes better about Brookline, MA, than Belleville, IL. But I won't tie up his nomination waiting for a satisfactory answer.

Thank you, Mr. Chairman.

Mr. SCHMALENSEE. I have a brief opening statement, if I may.

STATEMENT OF RICHARD SCHMALENSEE, PROFESSOR OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, NOMINEE FOR COUNCIL OF ECONOMIC ADVISERS

Mr. SCHMALENSEE. It is an honor to appear before you today to be a member of the President's Council of Economic Advisers. It would be a great honor to add my name to the distinguished list of economists who have held this position.

In addition, it would be both a pleasure and a privilege to work with Michael Boskin and John Taylor, exceptional economists, for whom I have a high professional and personal regard.

Prior to my nomination, I served as Gordon Webler Professor of Economics and Management at the Massachusetts Institute of Technology, where I have taught since 1977, although I am not from Massachusetts; I was born and raised in Belleville, IL. I taught for 7 years at the University of California at San Diego.

As a graduate student, I served for a summer as a junior staff economist at the CEA. My academic research, writing, and teaching, and my consulting work for private firms and government agencies have focused on the applications of microeconomics to a variety of policy issues, particularly in the areas of antitrust and regulation.

As a Council member, I would concentrate on regulatory and other policies that affect the operation of markets and industries in the U.S. economy. As a professional economist, I would make every effort to give advice based on objective, sound, and comprehensive economic analysis. I would of course also be available to discuss economic issues with and to receive input from the Congress.

In conclusion, I would like to thank you and the committee for considering my nomination. Mr. Chairman, I would be happy to answer any questions you or other members of the committee might have.

The CHAIRMAN. Let me ask you now to stand and raise your right hand.

[Witness sworn.]

Mr. SCHMALENSEE. I do.

The CHAIRMAN. Do you agree to appear to testify before any duly constituted committee of the Senate?

Mr. SCHMALENSEE. I do.

The CHAIRMAN. Thank you.

Well, there are several things I want to get into today. I understand, from reviewing your history in the areas that you specialize in, that your focus, as you just stated, tends to be more in the microeconomic area. This is not exclusively, obviously, because if you cannot add the micro up into the macro, I am not sure how good the micro is. However, we know you have been a specialist in industry sectors and other such work.

When you look ahead at where the U.S. economy is today and how we are performing in the context of the world economy, how well we are doing on a global basis? How do you feel about it?

Do you feel pretty sanguine? Do you feel pretty good about how we are doing? Do you see some major problems? Will you extend

out our trend line performance in the areas that you would think are the most important ways to measure our overall economic performance?

When you look out 5 years, 10 years, say to the end of this century, are there things in the picture that are matters of deep concern to you? You know, there is a prevailing view on the part of some that says, "Don't worry, be happy, everything is fine and we can just ride on into the future." There are others who express great unease about a lot of troubling things that they see, that could increasingly pose serious problems for us.

How do you add the picture up, and where do your concerns lie, if you have any?

Mr. SCHMALENSEE. Senator, I suppose I would describe myself as content in the short run, and moderately concerned about the long run. In the short run, the economy is performing well. Unemployment is quite low, we are continuing the second-longest expansion in U.S. history. We do not see signs of an impending recession, or a burst of inflation.

The longer run features of the U.S. economy is, of course, difficult to forecast. As you know, economists have trouble forecasting a year or two ahead. Trying to think about the U.S. economy in the long term is even more difficult.

But I would say that one needs to be attentive at the very least, and perhaps concerned, to ensure that U.S. productivity growth continues at a rapid rate, which means worrying particularly about savings and investment and capital formation issues; but also, as the President has done, about education, about drugs, and other aspects that affect the quality of the U.S. workforce and thus its productivity.

The CHAIRMAN. Is that basically it? Productivity is a concern. Do you see anything else that troubles you? For example, do you see anything in the financial structure that is of concern to you, in terms of continuing to have a strong economic performance?

Mr. SCHMALENSEE. Well, productivity is related to, as I think I mentioned, the cost of capital, which comes back to the financial structure. The central worry there is the low rate of U.S. national saving, private and public together. That is a concern. It means investment that has been necessary to continue the modernization and expansion of the U.S. economy has had to be financed in part by selling assets or by borrowing abroad. There is no immediate crisis in that respect.

It would, of course, be more desirable on several accounts if U.S. saving increased to finance U.S. investment. That is, I think, the most direct link to financial markets.

The CHAIRMAN. We all know the need to drive up the savings rate. And to the extent that we drive up the savings rate, we take down the consumption rate. If we are saving money, then we are not spending it on consumer items.

Is our economy geared today in such a way that we could easily handle the displacement of pulling money out of consumer spending and putting it into savings, recognizing that we need that?

Mr. SCHMALENSEE. Well, no economy, and certainly not ours, is able to easily handle large sudden adjustments in either direction. It has differential impacts on individual industries and regions.

One ideally moves with deliberate speed and caution in making these shifts.

If the U.S. savings rate were to increase truly dramatically overnight, there would be short-run microeconomic adjustments. It is unlikely that the economy can certainly handle conceivable increases in the savings rate over periods of several years, yes.

The CHAIRMAN. How about the problem of the United States itself having become a debtor nation, and the fact that we continue to go deeper into the international debt position? Is that a source of serious concern in your mind?

Mr. SCHMALENSEE. It is a source of some concern. I think at this stage "serious concern" would be something of an overstatement. We do not see—I do not see the makings of a crisis in the increase, or in the change in the U.S. net foreign investment position.

As you know, the statistics are not the best in this area, but it is clear what the trend is. But the level of indebtedness may be debated. I think we have been in the past a debtor nation. Other nations have as well. We were in the late 19th century a debtor nation on a very large scale relative to our economy at that time.

The CHAIRMAN. But would you not argue that that past period is so vastly different from today, that it is not necessarily relevant today?

Mr. SCHMALENSEE. It is relevant in the sense that it shows there is no iron law linking foreign indebtedness with economic catastrophe or with downturns. On the other hand, that position changed. National saving rose to finance national investment. The debts were repaid, and we became a creditor nation.

There would be cause for concern if the economy were not healthy enough to permit such a turnaround now. I think it is.

The CHAIRMAN. I want to pursue that further because I have a very keen concern about it. I brought a chart today that I wanted to discuss with you, on the very subject that you were just describing.

This chart begins in 1977; but if you run it back in time, you go back into the early 1900's, to a point when we were not a creditor nation. We had been a creditor nation, literally, from 1984 back to about 1917 or so coming through a lot of very rocky periods of depression and so forth.

This chart is taken from Commerce Department data. No one asserts that this data is perfect, but it is the best we have, and it is pretty darned important. I think the major changes that have taken place in a compressed timeframe are absolutely breathtaking. In my view—from somebody who studied economics a while ago but from good professors—we have to radically revise our thinking, revise our textbooks, revise our notion as to what is going on. Because I think the larger framework in which we have to think and work has changed.

Look at the numbers—including those recently reported from the last quarter—take what we were, say, in 1984, and look at how rapidly we have come down into the debtor nation status. Include the quarterly add-ons and the fact that we have passed everybody else in the debtor nation list, and you will see that the New York Fed is estimating that we are on our way to a trillion-dollar international debt in roughly 1992.

I asked Corrigan about this a short time ago, when he was seated where you are now. He expressed considerable concern about it. Now, he is a major central banking figure. There is a startling change in circumstances in an extemely compressed timeframe, when you are adding international debt at the rate of $1 billion every 3 days. I ask myself the question, how long can you ride that trend line, and where does it eventually take you? Because this is a new question. As you say, we have to go back virtually a century to find comparable data.

But even that data was different. We were not the world's leader at that time. We did not have forces deployed all around the world. We were not being asked to send troops to St. Croix, financial support to Poland, and so forth.

Not long ago, in New York, I asked a group of investment bankers who were partners of a major firm, for their view. Obviously, they are not economists in the same sense that you would be, but they practice high-level economics each day, and bet a lot of money on their judgments.

I asked them what it would mean if the United States owed the rest of the world $1 trillion by 1992. That set off a very interesting discussion around the table. At the end of that their answer in effect, was "Look, we are not smart enough to tell you what that means, but we can tell you that our professional judgment is that it is a very dangerous kind of a situation, and we ought not to find out what it means. We ought to get off that curve."

I see very little evidence that we are getting off the curve. We have had some improvement in the trade deficit. Some of it is real, but some of it is the fact that we report the numbers differently. As of January we have knocked off insurance and transportation as items that in the past we included, in calculating the numbers.

But now, with the dollar having gone back up and with the lags that tend to accompany international trade imbalances, virtually every CEO I talk to tells me that they think the trade deficit is probably going to rise again because the dollar has gone back up. So we are going to plateau out at well above $100 billion a year trade deficit, this will continue, because we keep adding all of the international borrowing.

I would really like as refined a judgment as you can give me in thinking about this. How long do you think this Nation, under these circumstances, can ride that kind of a trend line into the future?

Can we do it 10 more years? Five years? If we were to do it 10 more years, does that cause you to to feel that we would be working ourselves into a potentially unstable situation.

If people like you cannot give us an educated assessment of that—granted, that it is a new condition—then we are in real trouble. Obviously, you are going in at the top to advise the President on these things. But I want you to think about that as you are now, and then respond to it.

Mr. SCHMALENSEE. Senator, I would begin by saying that I share the wish of the investment bankers with whom you spoke, that we not find out. It is a situation for the economy as a whole that is without great precedent among developed, world-class economies. It

does reflect an imbalance between domestic savings and domestic investment.

While I think it is critical to encourage capital formation, it is also critical to close the saving-investment gap. The situation you describe—it seems to me you were worrying about the situation of a market collapse, in which foreigners——

The CHAIRMAN. I am not predicting that. I do not think it necessarily comes all at once. I think you get into a straightjacket, probably day-by-day.

Mr. SCHMALENSEE. In a way, given our low level of domestic savings, it is a very good thing for the economy that the United States is considered a good place to invest. Otherwise, that lack of domestic savings would be exercising a much stronger restraint on domestic investments.

So that the dramatic turnaround is in fact a measure of the extent to which foreigners have been willing to increase or to contribute to increasing the U.S. capital stock with which U.S. workers work, and to modernize U.S. industry, and so forth.

It is also a symptom of the shortfall in our international savings rate. I cannot predict—I think no one can predict very reliably what would happen if capital markets became convinced that this was a permanent state of affairs, that the United States could not get its savings rate in order, get its budget deficit in order. They are willing to invest here because this is considered to be a good place to invest. Those sentiments might change. That would be unpleasant.

The CHAIRMAN. Well, I can appreciate that. If the view changed, then you would get reactions from that, and so forth.

I would like you to address a different aspect of this. What are more of the sheerly mechanical economic implications, for any nation, of riding that kind of a curve into the future? We have got huge debtor nation problems out there. In Brazil, they have just announced that although they have payments due, they cannot pay them now. I do not want to compare us one-for-one with Brazil, but the point is that every economic article that I have read indicates that there are certain implications that go with that kind of a national condition.

We are not exempt from them, I assume, any more than any other nation. But what are those implications? I think the country needs to understand what is happening, and what we are setting ourselves up for.

Mr. SCHMALENSEE. The primary and direct implication is that funds flow abroad to service the debt. Whatever form the debt takes, whether it is interest payments on government securities, or rent on Manhattan office space, certain income flows abroad, because assets are owed abroad.

We bear a debt service burden. The sharp distinction between us and Brazil is that the world, I think correctly and without much thought being required, believes that we will have no problem servicing, as it were, our current level of debt.

So the long-run implication is that the assets used by U.S. workers indeed, and the debt of the U.S. Government held by foreigners—that money is sent abroad to service the debt. That is a drag on the economy.

The only way to avoid it is to have those assets acquired by U.S. residents, U.S. citizens. The only way for that to happen is if the savings are generated to permit them to buy the assets.

The CHAIRMAN. We seem to be in a situation where that is not happening. You have identified your concern about the low savings rate, and the patterns obviously show that the net flows are going the wrong way right now. Is there any way today, using current economic theory, that you can try to establish some kind of a rough measure of the level at which money sent out of the country either for rebating dividends or rents or interest payments, as a percentage of GNP or anything else, would be a yardstick that you would use to say, "Let's try to stabilize at 'X' level"?

Are there any rough benchmarks like that, any contemporary economic thinking and analysis? Or, is this too new of a problem for us?

Mr. SCHMALENSEE. To my knowledge, Senator, it is my impression that in the literature dealing with developing countries there may be some discussion; because there we have some experience to draw on. But it is my understanding that there really is not any way to justify a hard threshold for a country like ours.

The CHAIRMAN. I will come back to that.

Senator Pressler.

Senator PRESSLER. I have no questions for this witness, but I very much agree with your questions on the growing debt status that we find ourselves in.

The CHAIRMAN. Thank you, Senator Pressler.

We need to develop some way of understanding when we are getting into deep water in terms of debt burdens. If we are consuming at society's total consumption level, as we are now, and we are producing somewhere way below that so that we have got this gap which we are covering with borrowing, a lot of it of course will be foreign borrowing.

The dimensions that we are now dealing with on this issue are really quite a new phenomenon. We have not been in this situation before. We are very hard pressed to find any other modern nation that has been in this situation for very long, that is very comparable to the United States.

So I think the great value of an economist like yourself, who has written a great deal and is a very serious analyst of economic models and circumstances, is an ability to stretch our thinking out to wrap it around this new mix of economic circumstances. That is really the great challenge.

I think it is the No. 1 task facing our country and administration right now. I think, if George Bush and his advisers get the economic and financial policy strategy issues right, a lot of good things will flow from that. However, if we do not get them right, we are going to get caught in a tumble of events that I do not think any thoughtful person wants to see.

But to do that means that we have got to analyze where we are, and the trend lines that we are riding into the future. I would like to check off about four or five for you that I find very, very distressing, and then I would like you to react to them. Because if you are over there somewhere, and reality is over here somewhere, then that quite frankly is going to make me less comfortable about

you giving advice to the President. I do not assume that is the case, but this is what we need to talk about.

Look at our present trade situation. We have got a trade deficit still running well above $100 billion. The dollar is working its way back up, and we have got this current debtor nation problem. We have got massive Federal budget deficits—we have created the Gramm-Rudman-Hollings discipline but that is really a very arcane accounting scheme and we use the social security surpluses as a way to make the deficit look lower. If you take out the social security and other trust fund surpluses, it is clear that we have not yet managed to get our Federal budget deficits below $200 billion.

So we are rolling up this steady fiscal deficit increment. And of course a larger and larger share of each year's budget allocations in the Federal budget are going to service interest. So you have got that quandary on top of everything else.

Added to that is the situation you have mentioned. We have got a low savings rate. We have also got a low, I would say anemic, productivity rate. These things obviously all tie together in various ways. But it is persistent, and it has been with us for some time, and there is not any great sign that it is getting a lot better.

I think there are also some capital market structural issues that are out there. I will not get into those, like leveraged buyouts and how the market system is working, right now. We did have a very substantial market crash 2 years ago, which is of significance in such a context.

There would seem to be some meaning in everything relating to this situation. I would add another concern to the list, and that is the high school drop-out rate. The high school drop-out rate is roughly 24 percent across the country. In Japan, it is 2 percent. I do not see how a modern nation today can have that kind of a fall-out rate in its production of high school graduates, in the kind of new world economy that we are part of and hope to be successful in in the future. I do not see how 75 percent of the population with high school graduate skills can produce enough to accommodate the needs of the whole society. There is a terrible problem in that area.

Obviously, the President is stressing the drug problem, because that is another social issue that drains us in a different way. But if you just look at the most basic input factors that drive the economy and our national output each day, each year, you will see trend lines that are very disturbing.

Now, on top of that, I quite agree with you. Unemployment is low, inflation has remained relatively in check. We have modest but steady economic growth. I simply do not see how those things on the top can continue indefinitely if the things underneath it that I have just described, stay the way they are now.

Now, you can do it for a while, if someone else is willing to lend you the money between what you can produce at the lower level and what you want to consume and are used to consuming at the much higher level. I see a big day of reckoning coming here. I do not know whether it comes in rough shocks or with slight tightenings of the screws each day, for weeks and months, until finally you find yourself in a straitjacket where you do not have the maneuverability as a nation that you are accustomed to having.

I think we need to understand this, and to have a discussion about it. What I would hope, more than anything, is that you, going into the Council of Economic Advisers, would help capture those issues and get them into some kind of a framework of discussion.

That does not set aside clean air and the important work that has to be done there. That does not set aside the question of what is going on with deregulation in the airline industry, and whether it is working or not. Senator Pressler has had some things to say about that recently, and I have some concerns in that area and the other sectoral areas that are very important. Because if the micropieces are not working, it is pretty hard to get a macropuzzle that works well.

On the other hand, you might have some very good micropieces, and if the macrosituation is not working it may not mean very much anyway.

You are from MIT, there are a lot of smart people there and you are one of the smartest of the lot. I would hope that there is some very material discussion on these issues that is not just superficial or saccharine-like in terms of telling the country that everything is fine and we do not even have to talk about these issues.

Mr. SCHMALENSEE. Senator, if I gave the impression earlier that I did not think these were matters of concern, I am sorry. Because that would have been incorrect.

Going down your list, you mentioned the trade deficit, the Federal budget deficit, the low savings rate. Those problems all interact. The one aspect of that tangle that is at least most susceptible to action by the Federal Government is of course getting the Government's own fiscal house in order and dealing with the deficit.

I take that to be an extraordinarily important task. I can assure you that it receives regular discussion at the Council. It is not my primary responsibility, but I do not plan to leave the room, and I do consider it very important. After all, the main reason why we have a particularly low national savings rate by historical standards is the Government deficit, is the Federal budget deficit.

Therefore, to turn that around, to turn the savings rate around and to turn the trade deficit around, action on the Federal deficit is central.

You mentioned productivity. Actually, as I have looked at the last few years' data on productivity, particularly the revisions, they suggest that while productivity is not something to shout from the rooftops about by historic standards, there is a serious suggestion of a rebound from the truly dismal performance of the 1970's.

So I do not think that the record there is quite as terrible as it has been. I think that there are grounds for hope. But it is still not terribly good by historic standards. It would still benefit productivity, growth still depends on investment, it depends on modernization, it depends on research and development. And it depends therefore on a well functioning capital market to supply capital to industry at low cost.

Productivity also depends, to come to your point on education, productivity also depends, and depends critically, on—to say it technically and dryly—it depends on the quality of the labor force.

As an educator and as a father of children in elementary school, I am very concerned about the state of America's schools.

I think the high school drop-out statistic that you cited is indeed shocking. Performance of American students on standardized tests that compare them with their foreign peers is very disappointing. You know, I plan to be involved in consideration of the results, or the fall-out if you will, from the education summit, and in implementing or working to devise ways to implement and to follow through on President Bush's serious concern for American education.

I think one can argue that that is at least as serious, and perhaps more serious a problem for us than our savings rate.

The CHAIRMAN. It is a form of savings rate, the savings rate in terms of brain power, you know.

Mr. SCHMALENSEE. Economists call it "investment in human capital." I think that it is crucial to the economy. It may not be a matter of spending more on the schools; it may be a matter of spending it smarter. But in any case, the repeated reports and lots of statistics have shown that the output from our educational system is not what it should be, and that must be addressed.

The CHAIRMAN. I am going to yield to Senator Pressler.

Senator DIXON. I wonder if my distinguished friend from South Dakota would permit me to interrupt him for just a moment?

Mr. Chairman, I am in conference with the House on the Department of Defense authorization bill. I just wanted to come over here and say that I am delighted to see Richard Schmalensee here.

The record should be corrected, Mr. Chairman, to say that he is not from Massachusetts. He is originally from Belleville, IL, my home town. May the record show that?

The CHAIRMAN. He proudly said that in his opening statement.

Senator DIXON. I enthusiastically support him. And now I am delighted to yield to my good friend from South Dakota.

Senator PRESSLER. I had some questions for the record, but Senator Riegle has covered many areas. I am interested in airline deregulation, and the deficit. I am going to allow him to continue his line of questioning.

The CHAIRMAN. I have got just a couple more things to say. I appreciate the reference to Belleville. [Laughter.]

I would like to present this thought to you. In serving on the Finance Committee, this committee, and the Budget Committee, and representing Michigan—which is still a very big part of the production base of this country—I have spent a lot of time trying to make sense out of these new economic and financial conditions that I raised with you today. I do not raise them in order to be contentious; I raise them because I have the keenest sense of concern about them, and I hope that I may reflect that to you.

I think what that chart shows, in this plunge into our unabated debtor nation situation, is the fact that the whole broad, global economic game has changed fundamentally.

It has been changing since World War II, but the recent changes have been gathering force. In the last decade, say, as the rest of the world has really come on-line—Japan is an example, but there are many others as well—our relative position has changed dramatically. So trend lines that we may have had in place for a while,

changed very dramatically when the rest of the world wrapped around us in a global economy, in such a way that we are suddenly caught in a situation where others are surging and we are not. We have been undershooting our potential.

We find ourselves in the comparative pattern of relative decline in technology-oriented and other sectoral areas.

If that is right, this is a new phenomenon. It is very hard to make sense out of it; it's very hard for the American people generally to come to terms with the fact that our preeminent international position of, say, 20 years ago is gone. There are some things that we can do directly to change it; but a lot of it relates to what others are doing that we cannot directly influence.

But it imposes a whole new requirement on our country. We have to understand what is going on, and to lever ourselves up to a surge in national performance that we are not even talking about yet, let alone mapping out plans for. The high school drop-out rate has to go way down, and what the kids are learning is going to have to go way up. The savings rate and the investment rate and productivity performance, international trade performance and our fiscal policy are all going to have to be radically shifted. And this cannot be over a 25-year period in little, tiny increments, because I think the onrush of these trend lines is too powerful for that.

We have to make a very strong adjustment. We have to make what I would call a surge in national performance over a relatively short period of time. That involves challenging a lot of assumptions, and it means putting fault lines in the data where you literally jack up the performance, a lot, in a hurry.

Now, that is not comfortable. It involves sacrifice. It involves adjustments. It is definitely going to involve a very contentious debate. It is going to involve taking the "don't worry, be happy" and scrapping it as a sham notion in favor of the kind of discipline that we have to impose on ourselves, in terms of thinking and then judging and acting.

I do not detect much of that sense of urgency in your statements. I am expressing to you my sense of urgency, which I think is very appropriate and should be reflected in the country these days. With all due respect, I do not hear a great deal of that sort of concern from you today.

You are a measured man, and I think you are not here to try to alarm anybody, and I am not asking you to alarm anybody. But we need somebody who will show up one of these days with a real sense of urgency about taking and adjusting these trend lines—and I mean really adjusting them, and not 20 years down the road, or 30 years down the road. Otherwise, your kids and mine are going to be asking us before long where were we and what were we doing when their future chances were very substantially diminished beyond the future that you and I faced when we were back as youngsters in school.

So I think we have an enormous obligation to force ourselves through a very difficult assessment of the new realities. We must look at what is required, and then impose upon ourselves the kind of discipline and structured effort it will take to make a surge in national output. In that, I mean a real measured surge; not with doctored numbers and all of the kinds of accounting tricks and so

forth, but things that we can measure and taste and use and convert into our living standard.

So hope springs eternal in me every time I see an important nominee come in here, especially for the Council of Economic Advisers which I consider to be a very important place. I would not spend this time on this discussion if I did not feel that way.

Somebody is going to have to get in there and start ringing the bell good and loud, and I would hope that you would be that kind of a person. Somebody has got to make sense out of this new mix of elements out there.

If the economists who come from places like MIT cannot do it these days, I am not sure who is going to do it.

Mr. SCHMALENSEE. Senator, there are two dimensions. First of all, I share your concern. As you talked about the new economic realities, I was thinking about the reaction of firms, airlines, and other industries, newly exposed telecommunications, newly exposed to competition. That can be a good thing for an organization. It can cause it to realize things have to be done and things have to be changed.

The worst possible outcome is a retreat into competition is unfair. Something is wrong. We shouldn't have to compete. That would be a disaster, as it was briefly for some firms.

I think there is no question that the world has changed. There is no question that we are now like—we as a country are now like, let us say, AT&T, which for a long time had no competition and then suddenly had some. For a long time in the postwar period we didn't. We were preeminent. We had the capital stock. We had the labor. That has changed. And we had the technology, and that has changed, and that reality won't go away. We will face competition.

I would, of course, like to see us respond to that in a positive, affirmative way. One becomes competitive by becoming better, not by retreating from competition or by wishing the reality away or by any of a number of devices. The ability of a poor member of the Council of Economic Advisers singlehandedly to induce fault lines in the data I could but wish I had, but I certainly share your concerns about the desired directions of change.

The CHAIRMAN. I think if you were to decide that there needs to be a fault line in the data that by itself would be an extraordinary contribution. The next step then can be figuring out how to induce a fault line in the data. I am not hearing anybody really talking about this need yet, so that by itself would be an important start.

I want to say one other thing and then yield to Senator Shelby.

I had a major automobile company come in last week and they pointed out to me that their health costs per car, because they have a good health program both for current workers and retirees, was now giving them a $700 cost premium per car. This was not against the Japanese but against the Canadians. If you come from Michigan as I do and an auto company is trying to decide whether to build a plant in Detroit or go across the Detroit River into Windsor, all other things being equal, and there a $700 a car disadvantage because of just the application of health care costs, it is a huge economic factor.

Now, I put that on the table. If the cost of capital in the United States today for a major company to take the money and invest it

in new technology or modernize a plant is say 10 percent—most cannot borrow at that—and in Japan it is 5 percent, that is an enormous capital cost differential. This obviously affects savings rates and other things that we have been speaking about.

We cannot necessarily take too many situations like that. For example, pension fund managers now operate on a 98-day horizon in terms of the trading and selling of stocks and the leveraged buyout movements, and so forth; this pulls in the focus of corporate managers to very short-term objectives. What then happens is that a combination of those kinds of factors cause companies to say, well, I like competition, but I am so beset in so many directions that I am simply trying to survive. This causes them to get into an anti-competitive mode because they have got other structural problems that are bearing in on them that don't let them operate in the kind of classic free market way that we'd ideally work toward.

So I can understand why, when I see all of the elements, we don't always hear the good competitive ethic coming out of people who are out there in an intensely competitive environment, and even in many cases falling behind because of the international factors like those I just mentioned.

So I think again the problem here is that, if we need to make a major set of adjustments in our economic policy so that we can get a sharp trend line improvement in some of these categories, somebody has to give that a voice.

Frankly, I have not read all of the things you have written and maybe you have been writing along these lines. Nevertheless, you are now a very important person moving into this thing and if these are situations that are of concern, don't minimize your role. I think your role can be a very, very important one.

Mr. SCHMALENSEE. Thank you, Senator. I don't plan to be silent about my concerns.

The CHAIRMAN. Senator Shelby.

Senator SHELBY. Mr. Chairman, I want to tell you I appreciate the remarks that you have been making here. You have been carrying on a very high level conversation, I would call it, touching on some things that need to be talked about, and they won't go away, whether it is in this forum or in the forum that you are about to go into.

I just came by, Mr. Chairman, to, one, help you if you need any help—and you never do——

The CHAIRMAN. I can always use help.

Senator SHELBY [continuing]. To see the nominees through. They need all of them; the Council of Economic Advisers, HUD, and the Export-Import Bank need these people.

And I just want to add my remarks, that I am ready to support them. I have talked with them. I know a lot about them, and I believe that they will add a lot to the Government and the sooner we get them out the better.

I am tied up now on an Armed Services conference with the House and I have to leave, but you have got my proxy. If you want to get them out, do it.

The CHAIRMAN. Very good. Thank you, Senator Shelby.

I am going to suggest that the remainder of the questions be responded to for the record. I am going to give you some specific ones

that will relate to things like leveraged buyout activity, the Glass-Steagall question, and securities markets changes that you think may be in order. I want to get your thoughts on some important structural issues and microissues.

I don't mean to play down the importance of those things. They are extremely important as you take them step-by-step. I put the focus in the other area today because I think we have got some fundamental problems in the larger picture, and I wanted to discuss those with you.

So with that, let me thank you for your comments today. I look forward to further conversations, and I am pleased that you are willing to come into the Government and take on these public duties.

Mr. SCHMALENSEE. Thank you, Senator.

The CHAIRMAN. Let me now call to the witness table Eugene Kistler Lawson, to be First Vice President and Vice Chairman of the Export-Import Bank for a term to expire after 4 years on January 20, 1993.

Senator PRESSLER. I came to introduce Ms. Freeman.

The CHAIRMAN. Make any comments that you want about Ms. Freeman now.

Senator PRESSLER. I may be able to come back. I will be here for a while, but I just wanted to welcome her and express my support.

The CHAIRMAN. Very good.

Let me now welcome Mr. Lawson to the committee.

The principal role of the Export-Import Bank is to promote export sales in most parts of the world. It does this through financing programs, direct loans, financial guarantees to private lenders, and commercial and political risk insurance.

Another role of the Bank is to assist in combating subsidized lending practices used by other nations. Just yesterday this committee reported out legislation giving the Bank a $300 million war chest to assist it in negotiating an end to the pernicious practice carried out by other nations of tied aid credits.

Presently, because the Eximbank's direct loan program has been drastically reduced due to budget priorities, another key role for the Bank is to work with the private banking community and the administration to develop some creative new ways to finance American exports, and I understand that John Macomber, the new Chairman of the Bank, is making major efforts in that area, as he indicated to us he would.

The Bank's job of helping our businesses, large and small, find ways to finance their exports is especially critical as America finds its international debtor nation status increasing, as that chart we were referring to earlier so vividly illustrates.

As First Vice President, Mr. Lawson, you will have a key role on the Bank's five-member Board of Directors in wrestling with these issues. You do bring to this assignment a wealth of valuable experience, both in the public and private sectors, and we expect much of you for that reason.

I want to welcome you to the committee. Do you have anyone accompanying you today that you would like to introduce to us?

Mr. LAWSON. Yes, I do, Mr. Chairman. I am delighted to have my wife, Stephanie Green Lawson sitting right behind me.

The CHAIRMAN. Nice to have you.

Mr. LAWSON. I have a short statement if I may, Mr. Chairman.

The CHAIRMAN. Please.

STATEMENT OF EUGENE KISTLER LAWSON, OF THE DISTRICT OF COLUMBIA, TO BE FIRST VICE PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES, FOR A TERM OF 4 YEARS EXPIRING JANUARY 20, 1993, VICE WILLIAM F. RYAN, TERM EXPIRED

Mr. LAWSON. Mr. Chairman, I am honored to be before this committee and, if confirmed, to have the opportunity to work with this committee in the future. I am particularly pleased to be here because I am absolutely dedicated to the objective of expanding U.S. exports throughout the world.

In my view, Eximbank has a vital role to play. It has played a vital role in the past. It will and should play a vital role in the future in increasing our Nation's competitiveness, our export capability, and our industrial productivity.

Further, I believe that Eximbank can be an important ingredient in U.S. foreign economic policy. It can play a constructive role in the Brady plan on LDC debt matters and other things, too.

Thank you, Mr. Chairman.

The CHAIRMAN. Very good. Let me now ask you to rise and raise your right hand.

[Witness sworn.]

The CHAIRMAN. Thank you. I am going to give you questions for the record today that I would like you to respond to in written form. But I would like you to give me your ideas right now, as you presumably head into this job, of what you see as the major challenge out there. In other words, as you have been preparing, what is the thing that you intend to really give your principal priority to?

Mr. LAWSON. Mr. Chairman, I think there are at least three or four things that we see as major priorities I would list in no particular order.

First of all, getting the commercial banks, the money center banks of New York and elsewhere, back into the trade financing business. As you know, they have gone south on us. I think that they have been the vital engine in the past in trade financing, and we have got to get them back into the system.

John Macomber and I are working on various ways to do that and we think that we have a game plan to do that. It may or may not be successful, but we are certainly going to try it.

The second thing is to get our loan authority level back up to where we think it ought to be. I will not make any more comments about that right now, but I think that it is crucial for the future to be operating at a level in which we can meet the demands of U.S. exporters.

Third, I think that we can be of help in the LDC debt issue. We can supply new moneys. We can be a source of U.S. investment. We can support U.S. exports, and I think it is crucial to help Secretary Brady in alleviating the debt of the Third World countries.

So those are three of my priorities. I have many others, too.

The CHAIRMAN. Section 2(B)(2)(a) of the Eximbank's charter forbids the Bank from extending credit or participating in the extension of credits in connection with the purchase or lease of any product by Marxist-Leninist countries. As we all know, there has been just a wealth of new developments almost daily in the Soviet Bloc countries and behind the Iron Curtain. In light of the developments in Poland and now in Hungary and other Eastern European countries, would you advocate a change in this blanket prohibition?

Mr. LAWSON. Well, first we have to decide on whether to repeal the Jackson/Vanik amendment. The President and the Congress will have to pass on the Jackson/Vanik repeal before we can do any business in the Soviet Union.

But, in Poland, the events are extremely exciting as they shed the shackles of Stalinism and work toward a market economy and democracy. We look on that as an area in which the Bank can play a role. As of right now, we are a little bit constricted by the fact that we are required to have a reasonable assurance of repayment and the Poles are in arrears to us.

But the Poles have been quite forthcoming in the Paris Club rescheduling, and I think that we can work with them in the future.

So, yes, sir, I think the Bank should be supportive, of those efforts.

The CHAIRMAN. In Poland of course we now have a non-Communist head of government that has come into place, and that really changes the complexion of the political landscape there.

In Hungary you have a different situation. However, you have seen the Hungarians according East Germans the ability to move through their country and on into West Germany.

Do you have any particular thoughts as it relates to Hungary or a country in that situation?

Mr. LAWSON. Hungary is a different situation, in that it is a far more creditworthy country than Poland is. We are open for business in Hungary, and we have been doing some business there, albeit at a very low level. They are not as politically sophisticated as Poland, but we are open for business in Hungary.

The CHAIRMAN. Any other world spots that you would like to make a special reference about?

Mr. LAWSON. No, sir.

Senator PRESSLER. Mr. Chairman, I would like to get a question in.

The CHAIRMAN. By all means, Senator. Now is the perfect time.

Senator PRESSLER. I have one question about what you see as the Bank's role in assisting small business in developing export trade. If you can be specific, I would like you to answer that in terms of the global view.

Mr. LAWSON. Well, Senator Pressler, we take that charge that the Congress mandated to us extremely seriously here. I should have mentioned, in answer to Chairman Riegle's question of what my priorities were, that one is to help small businesses become more productive and more interested in exporting.

Last year, about 26 percent of the transactions that the Bank did was in the small business area, but I do feel that we can do better in this area.

We have started many new programs like the local, city, State initiative that you may have heard about. That has been going on for a year as a pilot program that has been tremendously successful, and we are now launching it full time throughout the country. That local, city, State initiative gets right down to the grassroots where the small business people are. Those are the people that we need to get to. Those are the people that we need to leverage, because they don't really know that much about the programs and policies of the Bank. If we can educate the local and State people in what Eximbank has to bring to the table, I think that we can actually leverage our resources much more than we have in the past.

The CHAIRMAN. Let me ask you one other thing here. Some trade experts contend that the Japanese have engaged in a kind of de facto subsidization of exports by protecting important industries in their home market from price competition from imports, and this then allows them to charge Japanese customers a higher price. We see that anomaly in the car business, for example. You can take a Japanese produced car and it will sell in Tokyo at a much higher price than if that very same car were offered for sale in the United States once it is shipped over here with a higher transportation cost, and so forth.

By the same token, lots of steps are taken to make it very, very difficult for American producers to try to sell cars in that market, and that is just one example. Others might be cited.

But you can see a situation where you get this dual pricing scheme and if you can pull that off—if you have got access to the other guy's market, can effectively close off your market, and you can go with a two-tier pricing system—you can handle that over a much broader production base and you can really clean up. You can generate enormous profits, and that is a kind of trade abuse in my view. If you do that over very many production cycles, you have got the working capital available to you and the profits to reinvest in the business, to upgrade your technology, and to make other refinements. You can do things where you can build in a competitive advantage over a period of time, and dwarf your competitors. I see a lot of that going on.

Do you think that there is truth in that analysis and, if so, what do you think we might try to do to rectify the situation?

Mr. LAWSON. Well, as you know, Mr. Chairman, we are deeply engaged in the SII talks right now, the structural impediments initiative talks, and one of the issues that is being discussed in those trade policy talks is just that. I think it is a major problem, and it has been a problem for many, many years.

The Japanese buy their way into a market share. They simply carve out a market share, and they are willing to take losses over time in order to gain a market share. They have done this in many industries, not just the car industry.

I think it is a serious problem and it has got to be changed.

The CHAIRMAN. Senator Dixon, who is not here, has been very involved in the FSX issue because one of the areas where we have maintained very substantial leads, is in high performance aircraft. Of course, many of us wonder if that is likely to be an area where we start to lose our competitive advantage based on these special

coproduction arrangements with the Japanese. Those arrangements are now ones that the Koreans are also beginning to pressure to have, because they would like to move out into that international business niche as well.

I think you sat through the entire discussion before on the economic situation. In a sense it is all in the context of this new global economy, and you are moving directly into the center of the puzzle of how to work the system so that we are not disadvantaged improperly or unfairly. We especially don't want to be disadvantaged because we were not smart enough to figure out how to go out there and really move our goods internationally.

There are other deficiencies or shortfalls that we may have, that fall into other areas that you may have to deal with indirectly. However, I think you and the Bank have a very important role to play in trying to reverse these numbers that I was showing on this chart. I think this is a huge problem that is facing the country. Because it is so new and it has come about so rapidly it is very hard to fathom. It challenges the conventional wisdom so much that it is like looking into too bright a light. It is almost too much to deal with, and yet it is the reality and we had better figure it out and start to turn it around.

I appreciate your responses today. We will be giving you some other questions for the record. I appreciate your willingness to come in to public service at this time and in this area. These are not easy jobs, and there is a lot of family sacrifice involved. So to you, your wife, and family we want to say that we appreciate that willingness to serve the country.

Mr. LAWSON. Thank you, Mr. Chairman.

The CHAIRMAN. Let me now invite our last nominee to the table this morning, Claire Freeman.

I would like to welcome you before the committee, and I also congratulate you on your nomination. As Assistant Secretary for Administration, you will work closely with Secretary Kemp to continue the process of restoring public confidence in the Department of Housing and Urban Development. It has obviously been very badly damaged by all of the revelations that we have seen over the last several months of wrongdoing in the past.

I note from your statement to the committee that it is your intention—and I quote you—"to make sure that HUD's programs are managed prudently and that HUD's financial management systems are impervious to fraud and abuse." I appreciate that emphasis by you in your statement, and I want to underline it because that obviously is a critical part of what is needed here.

I want assurance from you that anything that you sense that is improper or incorrect at any time—somebody trying to use the back door, the side door, come in over the transom or down through the fire escape, or whatever, for a special advantage or to try to slip around the rules or to get special treatment—will be reported. I want you to go to the Inspector General if you can't in any other way effect an immediate correction of something that you think is not right.

I am going to ask this of all of the HUD people, and I want you to give us that pledge. Let somebody check it out, and then if it

turns out that there is nothing there, fine. But I don't want any pattern of abuses that are sensed but not acted upon.

Now, I don't say that because I anticipate it is going to happen. But we have been through a miserable situation in HUD, and so it has got to be an 180-degree change. That means everybody has got to be willing to be not only vigilant but active and proactive in terms of making sure that none of this kind of activity goes on in the future.

That is my comment about it. I will give you an opportunity to say what you want in response, just a little bit later.

In any event, you have an enormous responsibility ahead of you. In your written testimony you state that as Assistant Secretary for Administration you will have two primary goals, to provide management with service and resources that are needed and to help restore public confidence in the Department. I am also interested in two other areas. First, whether you think HUD today has adequate resources to attract and train the kinds of individuals that it needs, and second, whether there are areas where additional resources are needed.

Let me ask you to make any opening comments that you like and introduce anybody who may be accompanying you this morning.

STATEMENT OF CLAIRE E. FREEMAN, OF VIRGINIA, TO BE AN ASSISTANT SECRETARY OF HOUSING AND URBAN DEVELOPMENT, VICE JUDITH L. TARDY, RESIGNED

Ms. FREEMAN. Thank you, Mr. Chairman.

I would like to introduce my support staff. I am very pleased to have with me a young man, Bethel Harris a college student, who has joined our office. This is one of his first Senate hearings and I am very pleased to be able to expose him to the workings of this high level of government. I also have with me my support staff, my secretaries and a member of the Fair Housing and Equal Opportunity staff, Johanne Booker, a new Deputy Assistant Secretary.

The CHAIRMAN. Let me welcome all of you. We are pleased that you are here this morning.

Ms. FREEMAN. I did not feel it appropriate to bring a host of the staff of the Assistant Secretary of Administration. We see enough of each other. [Laughter.]

The CHAIRMAN. I see.

Ms. FREEMAN. I wanted this to be an honest and an informal sharing with you and other members of the committee. I have only a brief opening statement.

First of all, I would like to thank you and the other committee members for expediting this effort. I know that there have been problems, and I cannot tell you what an honor it is for me to appear before you as the President's and Mr. Kemp's nominee for this very important position. I am enthusiastic, I am proactive, I am very excited about coming back to what I call the agency of my choice.

I decided very early in my life that I was going to have a public sector career, and all of my education and my work experience has

underscored this objective which makes me, hopefully—knock on wood—one of the most qualified people to occupy this position.

I am very proud of HUD's mission. Having just come from the Department of Defense serving for the last 5 years as the Deputy Assistant Secretary of Defense for Civilian Personnel Policy, I am, No. 1, very familiar with, massive Government scandals and, No. 2, I have a real understanding of the sense of mission that an agency must have to advance its efforts.

I think the mission of HUD is as important as the mission of the Department of Defense. Not many people would ask me how I can compare the DOD with HUD; DOD is such an important, newsworthy agency, and its mission is in the Constitution.

Well, I let them know, in no uncertain terms, that I believe the HUD mission is no less important than the DOD mission because it touches every person in this country: every blue collar person, every poor person, every rich person, every person that needs a job opportunity, every person that needs a housing opportunity. And I personally believe that the domestic peace we have experienced in this country over the last few years can be attributed to the national housing policies this Nation has established over the years.

So, I am proud of the mission of HUD, and I intend to work with Secretary Kemp and the rest of the team to let the Nation know that this is a proud mission and an important mission.

I am going to cut my statement short, Mr. Chairman.

The CHAIRMAN. We will make your full statement a part of the record.

Ms. FREEMAN. As you mentioned, I have several goals. One of the things that I learned when I first moved to Washington is that you have to focus, that you cannot do everything, you need to carefully select a couple of goals. For example, when I heard the former nominee speaking I heard you talk about education. Education is a major priority of mine. It was at the Department of Defense that I designed and implemented an executive development program for civilians. They didn't have that at DOD. I intend to bring the same kind of quality management—particularly training and development opportunities—to the workforce at HUD.

I think that we have been neglected, so to speak. The workforce at HUD has been neglected in terms of introducing the state-of-the-art financial management systems, as an example.

And I also want you to know that I have spearheaded, along with the Undersecretary, a major program, financial management task force. The task force is looking at 26 of the 30 material weaknesses that have been cited over the last few years. I truly believe that we know what is wrong at HUD. We have been told many, many times over by the GAO, by the IG, and others. We know the problems. But the program managers at HUD have not had the leadership from the top down to come together to develop action plans for those identified problems.

We are doing that now, and by the end of November you will see action plans on how we are going to fix HUD and fix it right. I truly believe that the new team, which I am very proud to be a part of, has a long-term vision, a long-term sense of commitment to what this agency is about and what it should be looking toward in the years to come.

[The complete prepared statement of Claire E. Freeman follows:]

STATEMENT OF CLAIRE E. FREEMAN
ASSISTANT SECRETARY-DESIGNATE FOR ADMINISTRATION
BEFORE THE
SENATE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS

SEPTEMBER 21, 1989

Mr. Chairman and members of the Committee, it is an honor to appear before you as President Bush's nominee to serve as Assistant Secretary for Administration at HUD. I am enthusiastic about working with Secretary Kemp and the other members of HUD's new management team to meet the challenges that face us. I am a true believer in the principles behind HUD's programs - to make decent and affordable housing available to every American; to work in partnership with our states, cities, and communities in an effort to provide housing and economic opportunity, and to ensure equal and fair housing opportunity. They are sound principles, and they deserve to be implemented in a sound manner. It truly is exciting to be a part of a Department that has a mission which touches virtually every American. I assure you that I will do everything as part of Secretary Kemp's management team to carry out this mission with the vision, integrity, and respect that are due.

Everyone is aware of the very serious problems that have been embedded in HUD's operations over the past years; and I, like other Americans, have been disappointed by the lack of adequate financial management controls and lack of accountability that apparently have run rampant at the Department. My first few months at HUD, which should have been a time for me to become

oriented to my new duties, have instead been a time of damage control. I have been charged with heading the Secretary's Task Force on Program Financial Management, which is examining the workings of the 26 primary financial activities in the Department and preparing Action Plans to correct deficiencies. The outcomes of that Task Force will form a major part of the agenda for Administration. As well, I have worked with the Administration staff to bring in outside experts and auditors to examine our financial and management systems and procedures, commensurate with Secretary Kemp's strategy. Like Secretary Kemp, I want to identify and correct all the problems as quickly as possible so that we can move forward. I am optmistic that we, as a HUD team, can achieve the goals set by President Bush and Secretary Kemp.

QUALIFICATIONS

As I indicated on the resume which I submitted to this Committee, I am not new either to the Federal Government or to HUD. I served as Deputy Assistant Secretary for Community Planning and Development at HUD. I was also privileged to be appointed as the Deputy Assistant Secretary of Defense for Civilian Personnel Policy. Now I look forward to this new challenge - managing a staff of 1,300 employees who provide service in the areas of personnel and training, budget, finance and accounting, administrative services, computer support, procurement and contracting, internal management consulting, and overseeing a financial operation of $600 billion.

GOALS

I have two goals as Assistant Secretary for Administration. The first is to provide the program managers with the services and resources they need to solve their management problems. Believe me, my heart is in the right place for this assignment. My staff and I won't just meet the needs expressed by the program managers; we will help those managers express their needs. We must reach out to managers, especially in areas in which they may not be aware of the technology or alternatives available to them. I am establishing an Administration Program Support Plan which will capture and track the needs of each program manager and our accomplishments in addressing those needs. I intend to hold my managers accountable for providing a positive and high level of service.

My second, but certainly not secondary, goal is to help Secretary Kemp restore the confidence of the American people in HUD's management. As Assistant Secretary for Administration, one of my most important - and most immediate - tasks is to improve the Department's major accounting and management information policies and systems. I intend to make sure each is thoroughly reviewed and, where necessary, overhauled so that they have integrity. Internal controls will be tested and, where needed, corrected to minimize the financial risk to the Government. Our financial and management information systems must support the Secretary's mandate for "...responsible financial management and sound business practices." Equally important, I intend to take a

hard look at how we are managing our human resources. I want to evaluate how we are allocating staff and how we are training them to do the work that must be done. No matter how well designed the systems are, their success is imperiled without the right people to operate them.

CONCLUSION

I am honored that President Bush has nominated me for this position and grateful that Secretary Kemp asked me to be part of an outstanding management team.

The Secretary, Under Secretary, and program managers have important objectives. It will be my duty to make sure that Administration managers and staff are bridges - to help them get from here to there - not fences, blocking progress. We will accomplish our mission by being creative, energetic, thorough, and prudent. There's much to do, and I am eager to proceed with my work.

That concludes my remarks, Mr. Chairman. I look forward to working with you and the Committee to improve the management of HUD's administrative functions and ensure that HUD fulfills its mission of promoting the goals of homeownership, fair housing, economic growth, jobs and opportunity. I am happy to answer your questions.

The CHAIRMAN. Very good. I appreciate that comment, and as I said, your full statement is part of the record.

And now let me ask you to stand and raise your right hand as I administer the oath.

[Witness sworn.]

The CHAIRMAN. Very good. Let me now yield to Senator Pressler for any comments or questions he wants to pose at this time.

Senator PRESSLER. I just have one question that you may be able to blend in with your answers later, and I do apologize because I have to go—I serve on five committees here, which is probably a mistake, but it keeps me moving around.

HUD does not have a comptroller, as I understand it. We have voluminous reports from the inspector general evidencing wrongdoing and mismanagement at HUD. Those are reports after the fact. What is happening on a daily basis? Would it not be better to have a comptroller with an adequate staff to report directly to the Secretary? Is it not an unusual function in the Federal Government?

Well, that issue from a public administration point of view, you can either cover it now or later on in your testimony, your views on that and how we can manage this thing over there in a fashion that will—in all of our departments where we can catch some of these problems, these unfortunate problems that occurred, and I am sure that you will work hard on that.

Do you have a view on that from an organizational point of view?

Ms. FREEMAN. I certainly do. As a matter of fact, we have been busily drafting a vacancy announcement for a chief financial officer. As you know, the OMB and the GAO were instrumental in pressing for legislation that all agencies have a chief financial officer. If any agency needs one, it certainly is HUD. We intend to have a chief financial officer very soon. We will be doing a nationwide search to get the very best and the very brightest for that very critical position at HUD.

Senator PRESSLER. Thank you very much.

The CHAIRMAN. I want to thank you, Senator Pressler.

I want to come back to something that I said to you in my opening comments. That is, I want your very direct assurance that anything that you ever sense in terms of anybody trying to get special advantage or, slide around procedures will be hit head on. I want your firm statement that you will insist that it be brought to a stop no matter who you have to take it to.

Ms. FREEMAN. Senator, you will be pleased to know that my staff has just recently sent to the Secretary an "all-hands" notice that says no matter where you are in the Department, no matter what your rank, what your job, you have a responsibility, a commitment to the agency and to the taxpayers of this country to call the IG. We will back you in every way possible, and if you are afraid to call the IG then send me a note and you can be assured that I will keep your name quiet and move forward with that.

Also, I intend to get a big sign in my office. When I was in planning school, I had a professor that had a sign in his office that said "Come clean even if you have to come rough dried, come clean."

That is the policy and the commitment that I give to you and to all of the people that I will be working with.

The CHAIRMAN. I am pleased to hear you say that, and I am pleased to hear you say it with the kind of feeling and emphasis that you do because we are all stewards for the people. In the case of HUD we are stewards for the better-off taxpayers on the one side and for some of the people in our society in the most difficult circumstances on the other, there are those who desperately need the help of our government, and we have programs in place to try to help people in those circumstances.

So that if there is a department of government where misconduct or the wrong things are done or have been done, everyone has been harmed. The taxpayers of course all are harmed in one way. However, the most vulnerable people in our society are often the ones who then are really further victimized because they don't get the help that was intended for them to improve their lives.

And so there is a great public responsibility that attaches here, particularly toward the people in our society that are very vulnerable and whose only hope may be that the Government as a whole will take account of their special needs and assist them. We cannot let those people be trampled, in effect, by others that want to divert resources or the purposes of their programs for their own individual gain.

We saw a lot of that. So your commitment in that area and the fact that you say that you have sent around that directive, is very appreciated. Have you, or are you about to send it around?

Ms. FREEMAN. It has gone forward to the Secretary for signature.

The CHAIRMAN. When that is signed off on and approved, I would like you to send a copy to the committee so that we have it as a matter of record so that we can see it. The intent is that it go to every employee in HUD?

Ms. FREEMAN. Every employee.

The CHAIRMAN. It is through the drafting stage; it is on the Secretary's desk for his sign-off?

Ms. FREEMAN. I believe it is on the Undersecretary's desk.

The CHAIRMAN. It is moving up the ladder. It is important that that gets done quickly. I would like you to convey the thought of the committee that it not gather dust on anybody's desk for long. It must be reviewed and sent forward until it clears the Secretary himself and it becomes the established policy in the Department, that we may know about it as a matter of public record.

Ms. FREEMAN. I certainly will.

The CHAIRMAN. I will count on you to see to it that once that process is finished, you will then get a copy of that to us here at the committee.

Ms. FREEMAN. I certainly will.

The CHAIRMAN. Very good. I am going to give you some questions for the record as well. I do want to say to you that I am very happy to see you sitting at the witness table here today as the nominee for this job.

Ms. FREEMAN. Thank you.

The CHAIRMAN. I feel very strongly that we need more women in government in all positions and we are making progress in that area. It hasn't always been easy to make the kind of progress that some of us see. I think you represent in more dimensions than one a tremendous effort and accomplishment in your own personal life,

especially to the point of being here today in a position to continue your service to the country.

I am also very impressed by your comment that from your early days you wanted to be in public service and work for the people. I certainly respect that view and I know Senator Pressler feels strongly about that as well.

So I am delighted that you have received this nomination and that you are going to have the chance to work for the people of this country and give them the kind of performance that they ought to have.

Ms. FREEMAN. It is a privilege, and I am absolutely honored and thrilled to have the opportunity.

The CHAIRMAN. Very good.

I think we have concluded our discussion here today with your nomination and the other nominations. So with that the committee stands in recess.

[Whereupon, at 11:30 a.m., the committee was adjourned.]

[Response to written questions and biographical sketches of nominees follow:]

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

September 22, 1989

Dear Mr. Chairman:

It was an honor to appear before you and your committee last Thursday, and it was a pleasure to be able to discuss recent economic events and current economic problems with you.

Enclosed are written answers to the questions sent to me by your staff. If I can provide any additional information, I will, of course, be more than willing to do so.

Sincerely,

Richard Schmalensee
Member-Designate

The Honorable Donald W. Riegle
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosure

Q. 1: Some have argued that the 1980's takeover boom was stimulated in large part by the laissez-faire attitude toward antitrust of the last Administration. To what extent did those policies lead to the increase in mergers, in your opinion?

A: One of the great unsolved puzzles in industrial economics is the causes of the remarkable variations in the level of merger activity over time during this century. While it is certainly plausible that the last administration's merger policy, which most students of antitrust (including myself) feel was generally sound, may have encouraged mergers (and thus takeovers) to some extent, the state of economic knowledge makes it impossible to offer even a good guess as to the magnitude of that effect. In part this is because it seems clear that the development of new financing techniques and the sustained growth in corporate earnings, among other things, have played a very large role in determining the level of activity in the market for corporate control.

Q. 2: Do you see the need for any changes in antitrust policy?

A: I view antitrust as important both substantively and symbolically; it serves both to maintain competition in the marketplace and to affirm the U.S. commitment to free markets. I have devoted a substantial fraction of my academic career to studying antitrust, and I believe that current antitrust policy is fundamentally sound. The various Department of Justice Guidelines issued during the last administration outline an enforcement policy with a sound economic foundation. The appointment of James Rill, for whom I have the highest professional respect, as head of the Antitrust Division leads me to expect vigorous application and sound refinement of this policy. While I do not think there is an urgent need for legislative reform, I do feel that recent legislative proposals to relax antitrust restrictions on production joint ventures deserve serious consideration.

Q. 3: Many of the large mergers of recent years have created huge firms, while others have been "busteps." On the balance, do you believe American business is getting more or less concentrated? Are some industries getting more concentrated?

A: On balance, there appears to be no strong trend in the overall concentration of American business--as measured, say, by the share of total U.S. assets or employment accounted for by the largest firms. However, even if overall concentration were changing, there would be no economic basis for leaning with or against the change. There are simply no known economic effects of changes in overall concentration.

At the level of individual industries, it is undoubtedly true now as in the past that concentration is rising in some industries and falling in others. Throughout most of the historical period for which we have data, average industry concentration has changed slowly, and merger activity seems to have played a very small role in those changes. Increases and decreases in industry concentration seem to be driven primarily by changes in technology and relative prices. I doubt that the current period is a departure from this pattern. The current period does depart from the past, however, in that global competition is now more important. This reduces the economic significance of U.S. industrial concentration. Even if a U.S. industry becomes more concentrated, for instance, increased foreign competition may nonetheless make the relevant market more competitive.

Q. 4: Over the last few years, we have increasingly seen that deregulation is not always the great boon it is sometimes made out to be. We've just gone through a particularly agonizing example in the savings and loan industry. This morning's Wall Street Journal had a story saying that many in Congress are reconsidering the need for airline regulation. Where do you stand on that?

A: The overall effects of airline deregulation have been carefully studied by a number of able economists. Their results are unanimous: airline deregulation has been a substantial boon to the traveling public. Both tourists and business travelers have gained from lower fares, and travel times have decreased on average. Recent increases in air fares are not drastically out of line with changes in the Consumer Price Index or with price changes in other industries. While the airline industry's performance is certainly not perfect, it has been good relative to many other industries in the economy. In short, all the available evidence indicates that reimposition of price and entry regulation would harm U.S. travelers severely.

On the other hand, the Department of Transportation is leading a careful review of competition and pricing in the airline industry, and that study may suggest other, less drastic changes in public policy that would improve airline performance. Many scholars, for instance, have viewed lack of airport construction and air traffic control capacity with alarm, and others have argued that the last Administration was too permissive toward airline mergers. Some of the specific proposals mentioned in the Wall Street Journal article cited in your question may also merit examination, though I am personally skeptical about the competitive effects of most of them.

Q. 5: Have you had an opportunity to examine the available evidence on the success or failure of LBOs? Are the resulting firms stronger or weaker competitors in the long run? What do you judge is the net effect on research and development?

A: Though I have not personally studied LBO's, I have read some of the literature on their effects and have discussed the available evidence with experts on the CEA staff and elsewhere. We do know some basic facts about LBO companies. First of all, buyout companies often tend to be in mature, stable industries that generate large cash flows--tobacco and food companies are good examples. This lends some immediate comfort on the R&D question, because, relatively speaking, these types of companies do not spend much on R&D. Conversely, growing high technology companies are poor candidates for LBOs because they do not have the cash-generating capacity to service a lot of debt. Second, increased debt levels and changed incentive structures lead buyout companies to squeeze even more cash out after the transactions are consummated. Compared to industry peers, buyout companies show improved operating profitability and reduced capital expenditures. The improved operating figures are generally interpreted as evidence that buyouts promote increased efficiency and thus make firms more effective competitors on balance. The reductions in capital expenditures are harder to interpret. Some observers, however, see these too as being efficiency-enhancing. Again, the logic is that many LBOs occur in mature industries where not much investment is needed, so that management may actually have been overinvesting in unneeded assets prior to the buyout, so that the LBO has the effect of freeing scarce investment funds for more productive uses elsewhere in the economy. I do

not know of any specific data on R&D before and after buyouts, though my suspicion is that some of the companies that are LBO candidates do so little R&D that it is not reported separately on their income statements.

While LBOs may thus have efficiency-enhancing effects on average, I would not claim that there are no cases where bidders have overpaid, or where transactions have been structured too aggressively. The relevant market is heterogeneous, and, as can be seen in recent newspaper accounts, there are certainly some bad deals to go along with the good ones. However, I think it is important to bear in mind that the market learns from the bad deals, and that in the long run, the market should play an enhanced role as a quality control mechanism. To some extent, we are seeing signs of that already--I doubt whether the junk bond market will provide financing quite as aggressively for future deals after the lessons of the past few weeks. Moreover, there is no reason to think that government regulators can do a better job than concerned investors of distinguishing good from bad deals.

Q. 6: "Selling Off America," a recent article in the Foreign Policy Magazine by Thomas Omestad, associate editor of that magazine, expresses concerns about growing foreign ownership of American assets. He contends that:

> "In the 1980's, America began trading ownership of assets for the privilege of living beyond its means. The result is a continuing erosion of control over decision making and technologies that are crucial to the creation of vital wealth and power."

Do you agree with that analysis? If not, do you have any concerns about increasing foreign ownership of American assets?

A: The passage contains an element of truth. Because of low domestic savings, we have had to borrow abroad and to sell assets to foreigners in order to finance domestic investment. These net capital flows into the U.S. exactly equal our current account deficit. I think it is important that we reduce these flows by increasing domestic savings and, more specifically, that we reduce federal government dissaving by meeting the Gramm-Rudman-Hollings targets.

However, I do not agree with the implication that seems to lurk beneath the surface of the passage above, the implication that we should restrict foreign direct investment in the United States. It is not necessarily worse for the U.S. for foreign capital to flow in through purchases of Manhattan real estate than through purchases of Treasury bills. Although direct foreign investment in tangible U.S. assets has increased in recent years, it has increased from a very low initial level, and U.S. citizens own substantial assets in foreign countries. The United States is just starting to approach our major trading partners in terms of foreign ownership of domestic tangible assets. Foreign ownership can be a healthy sign of an internationally integrated economy. Indeed, we can benefit from technological and other spillovers associated with foreign investment. Ideally, foreign investment should be a two-way street; we should be investing abroad to roughly the same extent that others are investing here. But again, that can only happen if we reduce the net flow of foreign capital into the U.S. by raising our national savings rate.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: SCHMALENSEE (LAST) RICHARD (FIRST) LEE (OTHER)

Position to which nominated: Member, Council of Economic Advisers Date of nomination:

Date of birth: 02 Feb 1944 (DAY) (MONTH) (YEAR) Place of birth: Belleville, Illinois

Marital status: Married Full name of spouse: Diane Hawk Schmalensee

Name and ages of children: Alexander Clayton Schmalensee, 9
Nicholas Hawk Schmalensee, 6

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Massachusetts Institute of Technology	9/61-6/65	SB	6/65
Massachusetts Institute of Technology	9/65-1/70	Ph.D.	1/70

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

National Merit Scholarship

NDEA Title IV Fellowship

Fellow, Econometric Society

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Phi Gamma Delta Iota Mu Chapter	Treasurer, Historian	11/61-6/65
American Economic Association	Various Committee Memberships	9/65-date
Econometric Society	Program Committee Memberships	1/70-date
Boston Athaenaum	None	8/87-date

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1. Junior Staff Economist; Council of Economic Advisers, Washington, D.C.; 6/67 to 8/67
2. Instructor, Assistant Professor of Management; MIT School of Management; Cambridge, MA; 9/68 to 6/70
3. Assistant Professor of Economics; University of California, San Diego; LaJolla, CA; 7/70 to 6/73
4. Visiting Associate Professor and Research Fellow; Catholic University of Louvain; Louvain, Belgium; 7/73 to 6/74
5. Associate Professor of Economics; University of California, San Diego; LaJolla, CA; 7/74 to 6/77
6. Associate Professor, Professor of Applied Economics; MIT School of Management; Cambridge, MA; 7/77 to 6/85
7. Visiting Professor of Business Administration; Harvard Graduate School of Business Administration; Boston, MA; 7/85 to 6/86
8. Professor of Management and Economics; MIT School of Management and Department of Economics; Cambridge, MA; 7/86 to date

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Junior Staff Economist, Council of Economic Advisers, 6/67-8/67

Consultant, Bureau of Economics, Federal Trade Commission, 1972-

Member, Special NSF Panel on Dissertation Research in Economics, Fall, 1988, occasional reviewer for various NSF programs

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

(See attached Curriculum Vitae)

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

Qualifications State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

No. I will be on unpaid leave of absence from MIT.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I plan to return to MIT.

3. Has anybody made you a commitment to a job after you leave government?

Only MIT.

4. Do you expect to serve the full term for which you have been appointed?

My term is indefinite. I expect to serve until either 1/91 or, more likely, 6/91.

Potential conflicts of interest:

1. **Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.**

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Lawson (LAST) Eugene (FIRST) Kistler (OTHER)

Position to which nominated: First Vice President & Vice Chairman Date of nomination:

Date of birth: 10 (DAY) 12 (MONTH) 39 (YEAR) Place of birth: Tulsa, Oklahoma

Marital status: Married Full name of spouse: Stephanie Green Lawson

Name and ages of children: Joseph Chappell Hutcheson Lawson — 22 years old
Emily Kistler Lawson — 18 years old
Sarah Greenleaf Lawson — 3 years old

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Princeton	'57 - '61	AB	'61
Columbia	'64 - '82	MA	'67
Columbia		PHD	'82

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Guest Scholarship, The Brookings Institution, 1973 - 1974

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
East Asia Advisory Council; Princeton University	Member	1982 - Present
East Asia Advisory Council; Princeton University	Chairman	1989 - Present
Princeton-in-Asia; Princeton University	Trustee	1987 - Present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

See attachment 2A.

Attachment 2A

Employment Experience:

May 1989 - Present	Consultant Export-Import Bank of the United States 811 Vermont Avenue, N. W. Washington, D. C. 20571
Feb. 1988 - May 1989	Deputy Under Secretary Department of Labor 200 Constitution Avenue, N. W. Washington, D. C. 20210
June 1984 - Feb. 1988	Executive Director Russell Reynolds Associates 1850 K Street, N. W. Washington, D. C. 20006
June 1981 - June 1984	Deputy Assistant Secretary Department of Commerce 15th and Constitution Avenue, N. W. Washington, D. C. 20230
March 1980 - June 1981	Executive Director Government Research Corporation 1250 Connecticut Avenue, N. W. Washington, D. C. 20006
Sept. 1977 - March 1980	Director, (MSFS Program) Georgetown University School of Foreign Service 36th and N Street, N. W. Washington, D. C. 20057
Jan. 1975 - July 1977	Deputy Office Director (EB) U.S. State Department 20th and C Street, N. W. Washington, D. C. 20520
Feb. 1973 - Dec. 1974	Guest Scholar The Brookings Institute 1776 Massachusetts Avenue, N. W. Washington, D. C. 20006
Sept. 1972 - Nov. 1972	Advance Man Office of the Vice President Old Executive Office Building Washington, D. C. 20501
Sept. 1969 - Sept. 1972	Staff Assistant, Desk Officer Department of State 20th and C Street, N. W. Washington, D. C. 20520

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

See previous atached sheet: work experience at State, Commerce, and Labor Departments.

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

See attachment 3A.

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Attachment 3A

Publications

U.S. - China Trade: Problems and Prospects (Editor & Contributor)
(New York: Praeger), 1988

The Sino - Vietnamese Conflict
(New York: Praeger), 1984

Articles, book reviews and essays in The Washington Post, China Quarterly, Harvard Business Review, Orbis, Foreign Service Journal, and The Journal of Asian Studies.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

1980 - $1,000 to George Bush for President (Fund for America's Future)

1981 - $1,000 to Republican Senatorial Campaign

1984 - $1,000 to Reagan - Bush Presidential Campaign

1988 - $1,000 to Bush for President Campaign

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   NA

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   None

3. Has anybody made you a commitment to a job after you leave government?

   No

4. Do you expect to serve the full term for which you have been appointed?

   Yes

I HAVE WORKED ON TRADE, COMMERCIAL, AND ECONOMIC POLICY PROBLEMS IN THREE DEPARTMENTS - STATE, COMMERCE, AND LABOR - FOR ABOUT HALF OF THE TWENTY YEARS I HAVE LIVED IN WASHINGTON. DURING MUCH OF THIS TIME I HAVE WORKED PROFESSIONALLY WITH EXIMBANK, AND HAVE A HIGH REGARD FOR ITS STAFF.

WITH A HUGE TRADE DEFICIT, I REGARD THE BANK'S ROLE TO PROVIDE TRADE FINANCING AS VITAL IN MAINTAINING OUR NATION'S COMPETITIVENESS, EXPORT CAPABILITY, AND INDUSTRIAL PRODUCTIVITY. U.S. EXPORTERS HAVE A RIGHT TO EXPECT THE U. S. GOVERNMENT TO ASSIST IN THE PROMOTION OF FAIR TRADING PRINCIPLES AMONG COMPETING NATIONS AND IN OFFSETTING - AS FAR AS POSSIBLE - THOSE ADVANTAGES THAT OUR FOREIGN COMPETITORS DERIVE FROM THEIR GOVERNMENT'S INVERVENTION. I HAVE DIRECT TRADE EXPERIENCE, IN ADDITION TO MY GOVERNMENT EXPERIENCE, ESPECIALLY IN EAST ASIA, AND I HOPE TO WORK WITH THE CONGRESS TO MAKE THE EXIMBANK AS EFFECTIVE AND COMPETITIVE AS WE CAN.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

NA

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: FREEMAN (LAST) CLAIRE (FIRST) ELENE (OTHER)

Position to which nominated: ASSISTANT SECRETARY FOR ADMINISTRATION Date of nomination: June 21, 1989

Date of birth: 24 (DAY) 9 (MONTH) 43 (YEAR) Place of birth: CLEVELAND, OHIO

Marital status: DIVORCED Full name of spouse: NOT APPLICABLE

Name and ages of children: SHANI FREEMAN WARREN AGE 15

WHITNEY BLAIR MORGAN AGE 24

Education:

Institution	Dates attended	Degrees received	Dates of degrees
University of Southern CA	9/71-6/73	MSURP	6/73
University of CA at Riverside	9/66-3/69	BA	3/69
San Bernardino Valley Col.	9/64-6/66	AA	6/66

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

- Secretary of Defense Outstanding Public Service Award 1987,1989 (With Palm
- Housing & Urban Development Distinguished Service Award 1984
- City of Los Angeles Outstanding Service Award 1972,74,82,84
- National Association of Planners Outstanding Leadership Award 1974, 1975
- Ford Foundation Fellowship in Urban & Regional Planning 1971-73
- NAACP, Roy Wilkens, Community Service Award 1986
- University of So. CA, Black Alumni of the Year 1984
- National Women's Political Caucus, Nominee for Political Appointment, 1989
- Federally Employed Women, Pentagon Chapter, Outstanding Service 1988
- SER Jobs for Progress Literacy Council, 1988-89
- DOD Representative, Congressionally Mandated Taskforce on Women, Minorities & the Handicapped in Science & Engineering Careers 1981-89
- Chairperson, DOD Working Group on the Science & Technology Workforce, 1988-89

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Public Managers Association Advisory Board	Member	1987 - Current
Federally Employed Women	National Advisory Board	1988 - Current
SER - Literacy Council	Advisory Board	1988 - Current

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

LA County Probation Department, Central Juvenile Hall
Group Supervisor 1967-1968

Cuyahoga County Welfare Department, Cleveland, Ohio
Welfare Worker 9/69-12/69

Watts Neighborhood Law Office, Los Angeles, California
Social Worker 12/70-7/71

Dept. of Urban and Regional Planning, Univ. of So. CA,
Los Angeles, CA - Teaching Assistant 9/71-7/72

Young Saints Academy, Los Angeles, California
Grant Writer Consultant (Intermittent Employment) 6/72-4/74

The United Way, Inc., Los Angeles, California
Regional Planner 6/73-10/73

City of Inglewood, Inglewood, California
Urban Planner 4/74-1/77

A Quality Service, Inglewood, California, Neighborhood
Rehabilitation Consultant 1/77-3/77

Economic and Housing Devel. Corp., Los Angeles,CA
Special Projects Director 11/77-6/78

California Association of Realtors, Los Angeles, CA
Manager, Community Planning & Development Division 6/78-6/80

Self-employed as a consultant in Silver Spring, Maryland
9/80-3/81

National Committee Against Discrimination in Housing,
Washington, DC, Special Projects Director 3/81-6/81

Dept. of Housing & Urban Development, Washington, DC
Initially as a Consultant then as Deputy Assistant
Secretary for Program Planning & Evaluation 6/81-4/84

Office of the Secretary of Defense, Washington, DC
Deputy Assistant Secretary of Defense, Civilian Personnel
Policy 4/84- 5/89

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

See List Attached.

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Nothing published.

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Republican National Committee, Member 1981 - present

Republican Congressional Victory, Committee Member 1983 - present

Attachment to Page 3

Government Experience:

- HUD/VA Liaison Committee, CA Association of Realtors 1978-1980
- Southern California Associations of Government, Equal Opportunity in Housing Task Force, 1988
- Community Resources Council, City of Los Angeles, CA, 1970-74
- Governors Task Force on Gang Violence, 1975-78
- Watts Neighborhood Legal Services, Lay Advocate, Family Legal Services Committee
- Project Help, LA City and LA County
- Watts Summer Festival Parade Chairperson, 1972
- City of Inglewood, CA; Human Affairs Committee, Manager, Youth Gang Task Force
- County of Los Angeles, Central Juvenile Hall, Group Supervisor
- Social Worker, Cleveland, Ohio
- Dept. of Defense, Deputy Assistant Secretary, Civilian Personnel Policy
- Task Force on Women Minorities and the Handicapped in Science and Technological Careers, Member
- Federally Employed Women, National Advisory Board

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight ~~years~~ and identify the specific amounts, dates, and names of the recipients.

George Bush for President, $1000, 1988

Republican Congressional Committee, $1000, 1983-88

GOPAL-RNC, $500, 1987

Federation of Republican Women, $500, 1988

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Not applicable

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No plans to return to California

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

QUALIFICATIONS

I am an experienced and visionary manager, dedicated to public service and to sound fiscal management. I see those four characteristics as being essential ingredients for success as the Assistant Secretary for Administration at HUD, particularly at this time.

My 25 years of experience in public administration is documented on the resume, attached. Much of my experience has been in development and implementation of innovative policies, always with the goal of improving service to the public. But while I am a strong proponent of creative solutions to management problems, I also have a private sector no-nonsense approach to financial management. I have a keen appreciation for the responsibilities that go with managing HUD's funds, and I expect to be a major part of the solutions to the financial management problems that have plagued this agency.

My number one goal as Assistant Secretary for Administration at HUD will be to restore the confidence of the nation in our abilities as public servants to protect the taxpayers' interests. I intend to make sure that HUD's programs are managed prudently and that our financial management systems are impervious to fraud and abuse. That is a big task; but I believe I have the right balance of experience, vision, commitment to the principles of public service, and fiscal acumen to succeed. I have a high regard for the dedicated Federal employees who are eager to rebuild the image of HUD. I am convinced that I can provide the leadership they need to find and implement solutions to the problems facing the agency.

I understand and support both the mission of the agency and the vision of Secretary Kemp, and I will be an active and valuable member of this team effort to lead HUD back to a status of which we all can be proud.

CLAIRE E. FREEMAN

301 N. Beauregard Street
Apartment 1603
Alexandria, Virginia 22312

H: (703) 256-9630
W: (202) 755-6940

SUMMARY OF ACCOMPLISHMENTS

Designed the Department of Defense, joint arena, Executive Leadership Development Demonstration. A civilian training program that mirrors military training. Received the 1987 "Outstanding Public Service Medal" in recognition of this effort.

Developed an improved method for conducting source selection, contract administration and procurement management for a highly visible $60 million Discretionary Fund. Received HUD's Distinguished Service Award in 1984 in recognition of this effort.

Facilitated the Senate authorization of a DOD demonstration to test an alternative to the existing federal personnel system.

Created and managed the Community Planning and Development Division for the CALIFORNIA ASSOCIATION OF REALTORS.

PROFESSIONAL EXPERIENCE

Deputy Assistant Secretary of Defense, Civilian Personnel Policy, Office of the Secretary of Defense, The Pentagon, Washington, D.C. April 1984 - current.

Deputy Assistant Secretary, Housing and Community Development, U.S. Department of Housing and Urban Development, Washington, D.C. March 1981 - April 1984.

Housing and Community Development Manager, CALIFORNIA ASSOCIATION OF REALTORS; Los Angeles, California June 1978 - August 1980.

Human Affairs Supervisor, Community Planning and Development Division, City of Inglewood, California April 1973 - January 1977.

Consultant: Project development and technical assistance to small businesses and non-profit organizations 1972 - 1980.

EDUCATION

Bachelor of Arts - University of California at Riverside - 1969.

Masters of Science - University of Southern California, Urban and Regional Planning, 1973.

PROFESSIONAL AFFILIATIONS AND REFERENCES AVAILABLE UPON REQUEST

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

Worked toward the passage of the Alternative Personnel System Legislation and Civil Service Simplification Act.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Not applicable

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

Eximbank Responses to Senate Banking Committee
Eugene Lawson Confirmation

Q.1. When Mr. John Macomber, the President of the Export-Import Bank, appeared before this Committee on July 20 he said a critical issue that needs to be addressed is the "running away from on the part of the commercial banks in this country of a willingness to provide the financing for capital investments, trade investments outside the boundaries of the United States."

Do you agree with his observation? Do you have any ideas on how we can get the commercial banks back into the business of financing trade? If so, what are they? Is the Administration working on that issue as a matter of high priority?

Mr. Lawson: The re-involvement of commercial banks in the business of trade finance is definitely a, if not the, critical issue facing Eximbank. I have to believe that the keys to the Eximbank programs and policies designed to reinvolve the Banks must include utility, simplicity and profitability. I assure you that I will do my best to bring the issue the broad visibility and attention it deserves.

Q.2. Section 2(b)(6) of the Eximbank's Charter prohibits the Bank from extending credits, guarantees, or insurance in connection with the sale of defense articles. That Section was modified in last year's Drug Bill to permit Eximbank financing in connection with military sales to assist anti-narcotic's efforts undertaken by governments. Some contend that the general prohibition should be removed from the Bank's charter.

What are your views on that issue?

Mr. Lawson: My reading of Eximbank's history indicates that the Congressional limitation on Eximbank support to LDC defense imports reflected considerable Congressional disquiet with previous Eximbank involvement in this highly volatile and politicized aspect of export finance. Since the early 1970's I understand that the financing of development has been the responsibility of AID, military financing has been assigned to the Department of Defense, commodity financing largely to the Department of Agriculture, and commercial financing of capital goods to Eximbank. Given the expertise each of these agencies has in its field, this allocation of responsibility and resources seems reasonable to me.